Highlights of Venezuela Environmental Market Study

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Introduction

The Venezuelan market has significant opportunities for Canadian environmental companies. In urban areas, opportunities exist in areas relating to water treatment, management and disposal of toxic waste, management of solid waste, and prevention of air pollution. In rural areas, there are opportunities in addressing problems such as soil erosion, deforestation, water pollution, and loss of wetlands and biodiversity.

1. Direction of the Chavez Government

The government of President Hugo Chavez would like to shift Venezuela's economy to production-based activities. It intends to contract out some services and to encourage investment with greater monetary, financial, and stock market stability, and to target investment and projects in specific geographic areas and sectors.

With a five-year budget of US$3.82 billion, the Long Term Industrial Plan (2000-2020) aims to re-industrialize the country by stimulating manufacturing and strengthening existing industrial capacity, and developing as much trade as possible. Specific actions will include:

- directing state procurement policy towards small- and medium-sized enterprises
- export incentives
- employment creation funds
- financial and technical support to new employers
- rehabilitation and development of industrial parks
- creation of the National Institute of Industrial Development

The National Infrastructure Plan targets four areas: Urban Construction and Infrastructure, Housing, Decentralization (of resources to local and state offices), and the Program of Transfers to Government Entities, a method of implementing infrastructure projects such as transportation.

The new Ministry of Production and Trade will help to promote and develop the country's productive base, encourage trade by small- and medium-sized enterprises, and promote tourism.

The government has identified sector-specific objectives for the oil and gas sector, the electricity sector, tourism, agriculture, construction, and telecommunications.

2. Legal Framework

Venezuela's laws governing the environmental sector establish the basic principles for

- conservation of the environment
- territorial planning (which establishes conditions for land use)
- urban planning and development
- the use of natural resources (forest, land, and water)
- wildlife protection
- environmental crimes

The government also has numerous technical regulations concerning radioactive material, hazardous materials and waste, air quality and ozone-depleting emissions, non-hazardous wastes, water quality, and use of natural resources (i.e. mining) and waterways. Venezuela is a party to numerous international agreements concerning land and forest protection, biodiversity, and ocean resources.

The proposed Environmental Organic Code, which has been submitted for discussion and approval to the national congress, aims to consolidate these laws and technical regulations into a single piece of legislation. It will involve repealing previous environmental legislation and most technical regulations.

3. Market Overview

MARN (Ministry of Natural Resources)

MARN is responsible for Venezuela's environmental policies, planning, co-ordination, and monitoring of environmental resources, as well as water and forests. MARN is organized into general divisions for environment planning, environmental equipment, hydrographic basins, education and community participation, environmental quality, inspection and control, autonomous wildlife and forest resources divisions.

The study gives general guidelines for project approval when dealing with MARN, and outlines the budget of each of MARN's divisions for specific projects. It also outlines sectors in which MARN is the governing body, and the registration process for consulting companies, air, water, and waste laboratories, and hazardous waste companies.

PDVSA

Venezuela's main oil company is Petroleos de Venezuela, S.A. (PDVSA). PDVSA is responsible for the development of the country's petroleum, petrochemical, and coal industries, as well as production.

New developments from consortia and international investors have increased risk and have opened up operations in previously undisturbed areas with sensitive ecosystems and indigenous communities. This has required greater attention concerning social and environmental impact. It is important to note that a substantial amount of industrial services in the Venezuelan oil industry is outsourced to private companies.

PDVSA's upgrading of facilities to meet national environmental norms will continue throughout the 1999-2008 period. PDVSA invests in manufacturing clean products, effluent treatment systems, atmospheric emissions, industrial wastes disposal, and earth conservation. PDVSA also carries out programs that help preserve national parks and provide technical assistance to farmers. Investment in the environment totaled US$ 268 billion in 1996-1999. According to PDVSA's 2000-2009 business plan, the company expects to spend US$2.5 billion in safety, sanitation and environment.

PDVSA and the Venezuelan government have started to encourage private participation in the energy sector. Recent auctions of exploration blocks will result in increased activity of both domestic and foreign companies. PDVSA is also promoting private investment in petrochemical product manufacturing.

A number of proposed and approved projects are detailed in the study. PDVSA's business plan also identifies plans for each sector.

SECTOR-SPECIFIC PLANS

Petroleum

- Identification of high-potential prospects, expected discovery of huge oil fields, aggressive seismic and drilling plan
- Production of up to 3 million BPD and capacity of 5.8 million BPD by 2009
- Commercial profit-sharing developments by 2002-2003
- Total third-party investment in exploration and production of US$36-38 million

Natural Gas

- Private participation in areas of transmission and distribution, future expansion of processing, extraction and cracking capacity of natural gas liquids
- Development of the Anaco gas field, with anticipated total investment of US$911 million
- Growth in production of natural gas liquids from 200,000 to 370,000 BPD

Chemicals

- Competitive development in methane and ethane petrochemicals
- Manufacturing of industrial products
- Increase production of fertilizers, plastics, etc. from 9 million to 22 million tons per year
- Total investment of US$8.7 billion

Manufacturing and Marketing

- Maximize product manufacture
- Integrate commercial exchange and operations
- 18% of forecasted investment to go to environment sector

Companies wishing to work with PDVSA and its affiliates are required to register with PDVSA's Registro Auxiliar de Contratistas (RAC), part of a large registry of all companies doing business with state-owned enterprises. The study details requirements of registration and qualifications of representatives. Companies must register as suppliers, contractors, or consultants.

The Guayana region of Venezuela has a substantial amount of heavy industrial activity. There is a significant presence of metal-metallic industries, and planned development of two new hydroelectric projects. The Guayana Venezuelan Corporation (CVG), the regional development agency responsible for planning and coordination, has developed environmental strategies for some of the industries located in Matanzas.

In Central Venezuela, there is a diverse range of industrial activity, ranging from steel and iron to paper and painting. In the Tuy Region there is activity in machinery, machine tools, and food processing and packing.

Mining

Venezuela has important mineral reserves of iron ore, aluminium, nickel, coal, gold, and diamonds, among others, that have not been fully developed. Industry characteristics:

- Holds significant potential
- Low economic benefits and inappropriate mining practices
- Lack of leadership from governing body and lack of a national mining plan

Water

This sector holds numerous opportunities. Private companies may participate in exploitation of water resources and distribution to end-users, through service contracts, management contracts, lease agreements, and concessions. 12 states are currently working on agreements with the government to decentralize water services. The study has a list of externally funded

regional projects that have recently been implemented or are about to begin. Investment in Venezuela's drinking water and sanitation system is forecast to increase to US$600 million per year during 2001-2006.

Management of Environmental Issues

All companies in Venezuela are required by law to submit environmental compliance plans, and if their facilities are substandard they are required to submit schedules of compliance. Environmental enforcement in Venezuela has been weak in previous years due to lack of funding; however, the new National Environmental Management Project will focus on legislation and regulations, as well as a private sector self-reporting system. The Venezuelan government is studying plans to provide incentives for the adoption of ISO 14000 standards.

4. Steps to Doing Business in Venezuela

The principle of national treatment applies to investments in Venezuela, thus foreign investors will be granted equal treatment by the government as domestic investors. Venezuela is also a party to several international treaties guaranteeing the right of foreign investors. Foreign investment is permitted in almost all sectors of the economy and in most cases does not require authorization. There are few restrictions on the repatriation of capital, profits, or access to international credit.

The jurisdictional authority for foreign investment is the Superintendent of Foreign Investments (SIEX). Other relevant authorities may include the Bank Supervisory Commission, the Insurance Supervisory Commission, the Ministry for Energy and Mining, and the Finance Department.

Investors must register with SIEX within 60 days of filing the investment at the Mercantile Register Office. A company may be classified as national, foreign, or mixed. The study documents the registration process at OCEI (Central Office of Statistics and Informatics), however service providers are exempt from the registration requirement. The study also outlines bidding bylaws for contractors dealing with government agencies and other organizations, as well as the visa process for visiting workers.

Companies providing goods or services to the government must register with RAC. This process is detailed in Section 3 of the study.

5. Business Opportunities

The Venezuelan environmental market is heavily influenced by the policies, programs, and activities of the public sector. The primary government agencies that generate opportunities in the environmental sector are the Ministries of Environment, Infrastructure, and Production and Trade.

Contracting out of works and services is done in compliance with the Bidding Law. The government also works in co-operation with development agencies such as the World Bank and the Inter-American Development Bank (IDB).

SPECIFIC PROJECTS

Venezuela-Inparques Project – World Bank #VEPA8237 (1995)

Implementing Agency: National Institute of Parks (Inparques)

Estimated project cost: US$96 million

This project will strengthen capabilities of Inparques and other relevant public agencies to manage parks, monuments, and wildlife refuges, intensify public research, training, and education, and improve fiscal sustainability of parks and protected areas.

Venezuela-Environment and Cartography Project – World Bank #VEPE35743 (1997)

Implementing Agency: MARN

Estimated Cost: US$ 50 million, co-funded with the Government of Venezuela

This project has been undertaken to strengthen MARN and redefine the role of MARN within the framework of modernizing the sector. It will also improve cost recovery and provision of services. A major aim of the project is to decentralize environmental management functions and to encourage private sector participation in both cost monitoring and in understanding its role in environmental management. This project involves

- Pilot programs to improve organizational and management expertise, equipment, and training to staff in two states and four municipalities
- Reinforcement of permitting and monitoring functions of specialized agencies, and consolidation of income-generating services into a single agency
- Participation of the private sector in areas such as providing environmental laboratory services, preparing environmental impact studies, and monitoring mitigation plans
- Acquisition of (cartographic) data for baseline planning, and providing support to the National Cartography Service

Venezuela-Agricultural Extension Project – World Bank #VEPA8222 (1994)

Implementing Agency: Foundation for Training and Applied Research for Agrarian Reform

Estimated cost: US$65-75 million

This program aims to make available improved agricultural extension services to small and medium-sized farmers, through a decentralized system of services and increased activities at the municipal level. The project will provide training and support for activities of these service providers and establish the necessary institutional structure to provide these services.

Program for Low-Income Housing Solutions – IDB (Inter-American Development Bank) #928/OC-VE (1996)

Implementing Agency: National Institute of Housing

Estimated cost: US$87 million.

This project will be undertaken to improve low-income access to housing by adopting a subsidy system. Other objectives are to reinforce institutional capacity of participating organizations and identify and draft proposals of change for the main problems associated with the country's housing policy.

Consultants will be hired to improve efficiency of implementing agencies, implement the beneficiary eligibility system, expand the existing information system and train staff, perform the final program evaluation, and supervise construction and housing works.

Caruachi Hydro-Electric Project – IDB #788/OC-VE (1993)

Implementing Agencies: Electrification of the Caroni River (EDELCA) and the Foundation for Electricity Services Development (FUNDELEC)

Estimated cost: US$2,103.4 million

The objective of this project is to meet a growing electricity demand by constructing a hydroelectric power plant from the Lower Caroni River, as well as to strengthen the FUNDELEC and support reform of the electricity sector, and promote efficient energy use. The project will require services of specialized consultants to undertake technical, institutional, and legal studies to support the sector.

Control of Valencia Lake Level and Supplementary Works – IDB #VE/0079 (1995)

Implementing Agency: MARN

Estimated cost: US$202.5 million

Some of the previous multilateral projects implemented by MARN have involved construction of water treatment and sanitation facilities in order to address the water shortage. These projects have resulted in increasing volume of sewage water draining into Valencia Lake, which have caused flooding and water quality problems. This project seeks to control rising water levels and to improve the treatment of sewage water. The main objective of this project is to control the impact of previous projects on the Valencia Lake basin.

National Urban Transport Program – IDB # 818/OC-VE (1994)

Implementing Agency: The National Urban Transportation Fund, with aid of municipalities and commonwealths

Estimated cost: US$140 million

The objective of this project is to alleviate transportation problems in Caracas and other cities by strengthening the management capabilities of municipalities. Specific objectives include:

- improving central and local capabilities for planning, co-ordination, and operation of transportation systems
- creating a favourable environment for private sector investment
- introducing traffic administration systems
- reinforcing financial feasibility of transportation systems
- facilitating access of the low-income population to transportation services
- reducing environmental contamination

Support Program for Initiatives and Management by Civil Community Organizations (PAIS)

Implementing Agency: Ministry of Family through the Venezuelan Social Investment Fund

Estimated cost: US$20 million (Sponsored by the Government of Venezuela)

The main objective of this project is to create a mechanism for co-operation among private, public, and community organizations to finance the projects and activities of civil community organizations, with a goal of increasing accessibility of the poor population to social services. The main components of this project are

- strengthening the management and capabilities of civil community organizations
- implementing projects and activities
- monitoring and external evaluation

The Agricultural Plan – IDB

As part of the Food and Agricultural Development plan, investments in 2000 will total US$560 million, with US$280 million of this contributed by the IDB.

Projects to be undertaken will be in areas of

- Land sanitation, drainage, and irrigation (US$200 million)
- Transfer and rehabilitation of medium irrigation systems (US$200 million)
- Rural communities consolidation and transfer of small Andean irrigation systems (US$40 million)
- Title documents registration, land registry, etc.
- Strengthening of the Vice Ministry of Food and Agriculture and the Autonomous Service of Agro-livestock Health

Projects from the Andean Development Corporation (ADC)

- The Orinoco-Apure Fluvial Centre Project aims to facilitate year-round navigation between Puerto Nutrias and the mouth of the Apure river in the Orinoco, as well as to rehabilitate the main ports on this segment of the river system.

- Venezuela also has an approved US$21.5 million loan for the continued development of the Yacambu-Quibor Hydraulic System, the construction of the system's water transfer tunnel and completion of the gravel dam.
- Approximately US$200 million is budgeted for improvement of basic infrastructure (water, electric power, and massive transportation) and for social programs. This also includes financing for pre-investment and feasibility studies.
- A number of specific projects each under $1 million for activities like organic coffee growing, shrimp-breeding, competitiveness program for the plastics industry
- From 1994-1998 approvals in Venezuela totaled US$2,361.2 million with an average annual growth rate of 10.3%. The long term loan portfolio increased by 309.7% from 1993-1997.
- ADC is currently financing the Improvement of the National Hydrometeorological Forecast System. It will also involve the creation of the National Centre for Alert and Hydrometeorological Forecast) to compile real-time data from sensor systems. The total budget for this project is US$84 million.

Other Government Agencies

FIDES – The Intergovernmental Fund for Decentralization

- Created to provide administrative and financial support for decentralization, to finance public services and productive investment projects in states and municipalities
- The full study specifies the assignment of resources by FIDES to each state, with estimates of spending for environmental projects.

FONVIS – The Venezuelan Social Investment Fund

- Created by the Ministry of the Family in 1990 to address poverty, consolidate modernization of the public sector, and to help the decentralization process
- Objectives are to capture and generate financial, technological, and information resources, transfer resources to support basic services supply projects, increase management capability and efficiency of decentralized public entities, support initiatives of the civil community, and promote association of public, private, and community resources and efforts.

Reconstruction of Areas Damaged by Flooding, December 1999

- The estimated damage caused by the flooding is US$3.2 billion, with US$1.7 billion of this in the Vargas state. The greatest damage by sector was in transportation, then housing, trade, tourism, water and sanitation, clean-up costs of debris, energy, and agriculture. The IDB is planning US$500 million of loans to Venezuela for reconstruction.

- In the Vargas state, reconstruction efforts are being managed by the Single Authority for Vargas State under their master plan for development.

Schedules and Tables

The study also provides a list of contacts in many government agencies, a list of companies registered at MARN and their contacts, sorted by specific sector activity. The study also details the investment budgets of government ministries.